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C O N F I D E N T I A L ALMATY 003143

SIPDIS

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TAGS: [EPET](#) [CA](#) [CH](#) [IN](#) [KZ](#) [ECONOMIC](#)

SUBJECT: PETROKAZAKSTAN FOLLOW-UP

REF: A. ALMATY 3075

[1](#)B. 03 ALMATY 2522

Classified By: CHARGE MARK ASQUINO, REASONS 1.4(B) and (D)

[1](#)1. (C) Summary: PetroKazakhstan (PK) officials expect to finalize the company's sale (ref A) to "PetroChina" (a CNPC subsidiary) next week, and a company vice-president discounted press rumors that India's Oil and Natural Gas Corporation (ONGC) might attempt to top PetroChina's bid. A well-placed employee of a SINOPEC (Chinese Petroleum and Chemical Corporation) subsidiary, however, revealed that SIPC, a SINOPEC subsidiary, is a secret CNPC partner in the PetroChina joint-venture. The oil community consensus here is that the Chinese paid a premium for PK. The proximity of PK's fields to the Chinese pipeline, along with the rumor of significant unbooked PK assets, reduce the perceived magnitude of that premium. The Government of Kazakhstan (GOK) has yet to officially acknowledge the sale, but insiders now assume that CNPC had the GOK's blessing prior to public announcement of the deal. End Summary.

Ownership Surprise

[1](#)2. (C) In a August 25 conversation with Emboffs, PK Vice President Rob Goldsmith dismissed press reports that India's ONGC was likely to top CNPC's bid. ONGC had not approached PK about such a bid, Goldsmith noted, and added that it made neither economic nor political sense for the two companies to compete over PK: the proximity of PK's Turgai fields in Eastern Kazakhstan to the Chinese pipeline made the company worth "at least seven dollars a share more" to CNPC than to ONGC, which would face higher transportation costs to bring Turgai oil to market. Further, Goldsmith doubted that India would undermine a recent energy cooperation agreement with China in order to secure PK assets.

[1](#)3. (C) On August 26, an expat employee of the First International Oil Corporation, Ltd. (FIUC) -- itself a subsidiary of SINOPEC -- told Emboffs that the PK ownership surprise would come from a different direction: SIPC, a subsidiary of SINOPEC, was in fact CNPC's secret joint-venture partner in the buying "PetroChina" entity. Asked why SINOPEC's role in the deal was being kept secret, the FIUC employee speculated that the Chinese did not want this deal associated with SIPC/CNPC's failed attempt to buy into the Kashagan consortium (ref B).

Valuation: Paying a Premium or Unbooked Reserves?

[1](#)4. (C) The general consensus here is that CNPC overpaid for PK. Conoco-Phillips Country Director Hakim Janah called the \$4.18 billion bid "crazy," calculating that once fair-value for PK's Shymkent refinery (\$300 million in his estimation) was factored out, the Chinese had paid nearly \$8 per barrel for PK's proven and probable reserves (estimated at 500,000,000 barrels), compared to an industry norm of \$4-5 a barrel. Goldsmith seemed to acknowledge that the Chinese had paid a premium, while suggesting that PK's "exploration" activities also added value to the company. Our FIUC source reinforced the point, which we have heard elsewhere, suggesting that PK had recently made some significant discoveries which had not yet been booked as reserves.

Kazakhstani "Yukos"

[1](#)5. (C) To date, the GOK has not commented officially on the sale. When the Charge asked the Canadian Ambassador if she thought the GOK had blessed the deal, she paused before giving a noncommittal answer. Nevertheless, the official daily "Kazakstanskaya Pravda," published two glowing articles about an ongoing CNPC venture here, CNPC-AKTOBE, on August 23 and August 25. In one piece, the CNPC-AKTOBE Chinese national director pledged to go beyond GOK requests for discounted diesel during the harvest season -- a cause de guerre for PetroKazakhstan and flashpoint with the government. A Russian internet trade journal, "RusEnergy.Com" dubbed the sale "Turgaiskii Yukos," after the basin where

PetroKazakhstan has its fields. A Kazakhstani-based electronic media source, "Kursiv," forecast a battle with the GOK since the state producer KazMunaiGaz lost out. Our

sources, including the FIUC employee, hint at CNPC giving up the Shymkent refinery to KMG to placate the GOK.

16. (C) Comment: It appears that the GOK is on-board with this deal. If so, the question becomes: what did CNPC give up to gain the GOK green light? Contacts tell us the Shymkent refinery is one possibility. That leaves the Russians to placate. They may, however, have been left out of this deal, with a GOK promise to protect the Chinese from the kind of one-sided Kazakhstani justice with which Lukoil helped bring down PK. If the GOK's guarantee is good, a CNPC-owned PK has little to fear from Lukoil in Kazakhstani courts. Nevertheless, little can be known for certain until we get a public GOK statement. End Comment.
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